

# Summary of Stakeholder Meeting Notes

**CLA, December 10, 2007**

## **Purpose of Stakeholder Feedback Sessions**

The San Jose City Council has authorized the Stakeholder Feedback Process to:

- Provide information about the new GASB (Government Accounting Standard Board) requirements and current/future retiree health cost liabilities, and to
- Solicit ideas from stakeholders about how to respond to the new GASB requirements and how best to pay for and manage future retiree health care costs.

## **Guiding Principles Offered by Stakeholders**

The following are Stakeholders' points of guidance for the decision-making process related to GASB requirements and the City's/employees' current and future retiree health care obligations:

- Rebuilding trust between the City and bargaining groups/employees/retirees is critical to success in overcoming GASB and retiree health care cost obligations.
- CLA Stakeholders indicated that given the seriousness of the challenges, no actions for consideration and investigation are "taboo" or completely "off-the-table". However, actions under consideration should be thoughtfully and carefully prioritized from high-priority actions to very low-priority actions (CLA Stakeholders mentioned that bargaining groups would like to have a voice in helping set these priorities). Every effort should be made to solve the GASB and retiree obligations challenges with the high-priority (reasonably transparent and little or no cost shifting) actions before low-priority actions are even considered. Examples of high-priority actions are prevention/wellness/risk reduction and diabetes reduction initiatives. Examples of very low-priority actions are:
  - Changing the eligibility period to qualify for retiree benefits from 15 years to 25 years of service
  - Linking the City's contribution to single coverage instead of family
  - Deferred vesting
  - Change Dental vesting to the same service requirement as vesting for the medical plan

- Much more factual information about the challenges is needed for everyone. San Jose-specific numbers need to be disclosed and the national trends and actions should be added as perspective. The magnitude of costs and the seriousness of the situation needs to be proven, and a reasonable estimated timeline for possible changes needs to be developed. This discussion could start with a worst-case scenario (especially for individual employees) and work forward from there. Answer the question, “Who’s at risk for how much, when?”
- More emphasis needs to be placed on actual financial ramifications, even if the numbers would be fairly imprecise at this stage.
- Much more collaboration is needed in considering these challenges and possible solutions. This should not be a management-driven solution. Also, communications should be jointly-issued to the greatest extent possible, and efforts should be coordinated, not disjointed and piecemeal as happens frequently now. The Benefits Review Forum (BRF) has been a good venue for consideration of collaborative solutions (more should be done there). And finally, the recent practice of “piling onto” a particular bargaining unit to negotiate changes then extending those changes to the remaining units should be minimized if not eliminated. This practice does not support a collaborative search for solutions.
- The following question needs to be answered: “What is the City doing to obtain funds for its 50% share?” Does this include reallocation of revenues and resources and/or priorities, better use of people, etc.?
- The issue of how/whether to pay for past service will have to be overcome. Some employees, particularly those with relatively shorter service, may have an attitude like, “I might be willing to help pay toward today’s and tomorrow’s retiree costs, but I shouldn’t be obligated to go backwards and help fund the past 20+ years of past service obligations since I wasn’t even working here then”.
- More information is needed about the five possible Retiree Health Savings Accounts vehicles that could be used to hold funds for future obligations. Specifically, would one or more of these Accounts overcome the IRS’ 25% contribution limitation that is currently in effect in the medical portion of the Retirement Plans?
- The Council’s recent augmentation of the Fire Retirement Fund should be considered as a model for funding all retiree groups’ future cost liability.
- The expected cost savings from any step under consideration should always be calculated, and if the action step is adopted, the actual effectiveness (savings) from the step should be monitored and reported (it is especially important for the actual savings results to be communicated to the actuaries).
- Much more pre-discussion about very large challenges like this one needs to take place well prior to bargaining time.
- It may be necessary to treat retirees and actives differently in efforts to control costs, but everyone should recognize almost all actives will eventually become retirees, so changes should not go “overboard” in one segment vs. the other.

### **Possible Actions and Ideas Suggested by Stakeholders**

The following are Stakeholders' suggestions and ideas about how to respond to GASB requirements and to pay for/manage current and future retiree health care obligations:

- CLA Stakeholders recognize that prevention/wellness/risk reduction programs hold good promise for reducing retiree costs, especially over the long term. However, Stakeholders added that the results of wellness initiatives must be carefully monitored, and as positive results begin to be demonstrated, discussions should be held with the Plans' actuaries to ensure the wellness-generated positive results are given appropriate credit in the actuarial assumptions and future retiree cost calculations.
- An "Actuarial 101" briefing should be held so Stakeholders can better understand the actuarial process used in San Jose's Plans' situations (assumptions used, etc.), and how San Jose's valuations compare to the actuaries' other clients. Actuaries should be questioned about whether they use national medical cost increase trend assumptions, or whether assumptions are based on the region(s) where most of San Jose's retirees reside and receive medical care. The actuaries should also brief San Jose Stakeholders on the actuaries' clients' actions to cope with GASB and retiree obligations. This briefing could be video recorded and distributed as needed.
- "Back-to-Basics" education about the retiree health benefit, eligibility provisions and costs is sorely needed for all employees, dependents and retirees. AFL/CIO and Kaiser are providing cost-awareness training opportunities in some areas. Is there a fit for this approach at the City?
- Consider issuance of one or more bonds to provide a "fast-start" investment into accounts for future retiree health care costs. This would allow very positive investment earnings to more than pay the interest cost of borrowing (and possibly the repayment rate as well), and thus, over the very long term, the full amount of the original bond would be usable for retiree costs.
- Investigate whether/how issuance of City bonds with X% interest paid by the City could be used to create funds to invest in higher-return investments at Y%. In this way, the margin between interest paid and investment returns could help offset future retiree health costs (arbitrage-like approach).
- Thoroughly investigate all of the pro's/con's and ramifications of a moderate funding target (e.g. 75%) vs. phased-in full (100%) funding.
- A needs assessment should be conducted to determine what's really needed by retirees in retirement vs. what's being provided now. The goal is to determine the optimal design of a plan to meet retirees' actual needs today and tomorrow.
- Investigate whether changes in co-pays and imposition of other cost sharing techniques are more or less effective than other means that are available to control retiree costs.
- Determine whether certain types of opt-out options for a spouse's coverage could be offered to current and future retirees and family members (with an

incentive and a guarantee of the ability to return to the City's Plan if the other plan opportunity becomes unavailable).

- Investigate whether Medicare Advantage and other Medicare Supplement Plans would be a positive way to transfer some/much retiree cost and GASB liability for retirees who transfer to one of these plans. (This investigation should learn if there are any post age-65 retirees who may not be eligible for Medicare).

### **Next Steps**

- Continue the Stakeholder Feedback Process
- Post results of each Stakeholder Session on the City's Website
- Incorporate added comments
- Assemble all Feedback Session results into a non-evaluative report of Stakeholder Feedback and ideas for the City Council